

**MINUTES**  
**ROCKFORD FIREFIGHTERS' PENSION FUND**  
**May 15, 2014**

A regular meeting of the Board of Trustees of the Rockford Firefighters' Pension Fund was held on Thursday, May 15, 2014, at 3:00 p.m. in the second floor conference room of the Fire Department Administrative Building at 204 S. First Street, Rockford, Illinois, pursuant to notice.

**CALL TO ORDER**

The meeting was called to order at 3:10 p.m. Upon a call of the roll, the following answered:

ATTENDED: Alan Granite, President  
Chris Black, City Finance Director

Michael White, Trustee

ABSENT: Tracy Renfro, Secretary

Jim Strey, Trustee

STAFF: Ted Dutkiewicz, Revenue Manager  
Judi Yehling, Recording Secretary

Linda Wlaznik, Pension Investment Accountant

GUESTS: Attorney Carolyn Clifford, Ottosen Britz Tim Bowen, Mesirow Financial Insurance Services  
Mike Piotrowski & Eric Gaylord, Marquette Associates  
Liz Philipp, PIMCO

**I. PUBLIC COMMENT -- None**

**II. MINUTES**

- The April 17th minutes were presented. Michael White made a motion to approve the minutes and Chris Black seconded the motion. A roll call vote was taken:

**Ayes:** Alan Granite Michael White  
Chris Black

**Absent:** Tracy Renfro Jim Strey

**Nays:** None

**III. APPROVAL OF APPLICATIONS/PENSION CHANGES**

- Attorney Clifford handed out a memo on how the disability policy works and some recommendations for IMEs with reference to Barry Fitz's application for duty disability pension. She has received the required records from the City and the Fire Department but the dates on the releases submitted are wrong and so they must be redone.

One of the doctors recommended is an occupational specialist for firefighters; the other two are experts in injuries of shoulder knee and hip. She also has a third-party list of specialists. There is one physician with Rockford Orthopedic but since this is a practice that Fitz has gone too, she recommends avoiding using this doctor. Another locally is Dr. Jeffrey Baer with Rockford Spine. The options were discussed and Michael White made a motion, seconded by Chris Black to contract with Drs. Samo, Freeberg and Baer with Dr. Gleason as an alternate to conduct the evaluations. A roll call vote was taken:

**Ayes:** Alan Granite Michael White  
Chris Black

**Absent:** Tracy Renfro Jim Strey

**Nays:** None

She will contact Fitz to schedule appointments.

- Firefighter Arnold Dunbar died on April 26, 2014, and his service pension will terminate. Alan Granite made a motion to terminate Arnold Dunbar's service pension and approve the survivor spouse benefit for Elizabeth Dunbar pending receipt of her application for surviving spouse benefits. Chris Black seconded the motion. A roll call vote was taken:

**Ayes:** Alan Granite Michael White  
Chris Black  
**Absent:** Tracy Renfro Jim Strey  
**Nays:** None

- Firefighter Robert Rosenquist died on April 29, 2014, and his service pension will terminate. His surviving spouse, Georgetta Rosenquist, has made application for surviving spouse benefits. Alan Granite made a motion to terminate Robert Rosenquist's service pension and approve the surviving spouse benefit for Georgetta Rosenquist pending receipt of her application. Michael White seconded the motion. A roll call vote was taken:

**Ayes:** Alan Granite Michael White  
Chris Black  
**Absent:** Tracy Renfro Jim Strey  
**Nays:** None

#### IV. DISBURSEMENTS

- Michael White made a motion to approve the May payroll of \$1,312,433.27. Chris Black seconded the motion. A roll call vote was taken:

**Ayes:** Alan Granite Michael White  
Chris Black  
**Absent:** Tracy Renfro Jim Strey  
**Nays:** None

- Invoices totaling \$60,634.66 were presented as shown in the attached warrant packet. Michael White made a motion to approve the invoices as presented in the warrant packet. Chris Black seconded the motion. A roll call vote was taken:

**Ayes:** Alan Granite Michael White  
Chris Black  
**Absent:** Tracy Renfro Jim Strey  
**Nays:** None

#### V. CASH & INVESTMENTS

- Mike Piotrowski presented Marquette Associates' Report for April 2014:
  - The themes for April have been much the same, and the Fund is up 70 basis points. It is on track for meeting its actuarial assumptions but equity continues to be volatile.
  - GDP is flat but consumer spending is strong we're looking for strong GDP growth despite continued volatility.
  - Brandes has been funded as of May 9<sup>th</sup>.

- The investment in DFA has not changed and deep value is doing so well that there doesn't seem to be any rush and this "should benefit us," Mike Piotrowski said.
- The 10-year return is 7% for the Fund.
- Principal is up 13% and think we can expect 6-8% this year.
- The real estate component is the best-performing sector.
- The stock market as a whole is up 150% but that will change.
- The biggest challenge for the future is the fixed income component, and return expectations are not reasonable.
- Mike Piotrowski advised Board that he has updated the Investment Policy to add the small cap international. He would like it put on the agenda for next month. He commented that the probability for change is greater, especially for smaller funds.
- Cash needs for the month are \$600,000. The recommendation is to take \$350,000 from Vanguard Value Index Fund and \$250,000 from Vanguard Institutional Index Fund. Michael White made a motion, seconded by Alan Granite, to take \$350,000 from Vanguard Value Index Fund and \$250,000 from Vanguard Institutional Index Fund to meet cash needs for the month. A roll call vote was taken:

<b>Ayes:</b>	Alan Granite	Michael White
	Chris Black	
<b>Absent:</b>	Tracy Renfro	Jim Strey
<b>Nays:</b>	None	

- Records of purchases and sales were distributed.

Alan Granite made a motion, seconded by Michael White, to approve the purchases and sales for the month. A roll call vote was taken:

<b>Ayes:</b>	Alan Granite	Michael White
	Chris Black	
<b>Absent:</b>	Tracy Renfro	Jim Strey
<b>Nays:</b>	None	

- Mike Piotrowski introduced Liz Philipp of PIMCO:
  - Philipp opened her remarks by saying that they've been a manager for the Fund since 2012 and the markets have been "interesting." Beginning this year there have been some management changes and with the departure of the CEO, someone with 25 years of experience has been put in his place. However, they have the same process and the same outlook.
  - PIMCO is a 43-year-old investment solution provider with \$2 trillion in assets under management and 2,500 employees and 13 offices.
  - Page 5 shows the assets under management by strategy shows \$80 billion under asset allocation and \$33 billion in mutual fund in which we're invested. Their goal is to capture assets both over the long term -- three to five years -- and the short term -- three to four quarters.
  - They are an "eat our own cooking" type firm – employee invested.
  - The return so far is 4.1%, favoring cheap assets and investments outside the U.S. They subscribe to the "third pillar" concept which is to provide income with diversification, and they have a bias toward higher inflation. The risk is diversified across multiple sectors with historically 10% invested in the "first pillar" (core stocks); 14% in the second (core bonds); and

77% in the third pillar (diversifiers – commodities, REITS, TIPS, etc.). The “key” is to preserve purchasing power.

- In 2013 (see page 12) the US equity market did well, and the third pillar had rather sporadic performance; but in 2014, the third pillar outperformed the other two. In 26 out of the last 40 years (page 13) the third pillar or non-traditional investments outperformed the others 65% of the time.
- Page 14 shows the performance of the PIMCO All Asset Fund whose return through March since inception was 2.5%, and they look to outperform the CPI.
- On page 15 you can see where the returns come from, and commodities and REITS are the biggest drivers.
- Overall they have a contrarian philosophy – they buy when others sell. They believe the outlook is “slow” but that there will be continued expansion.
- Mike Piotrowski summarized PIMCO’s positions and philosophies by saying that they don’t move around a lot and with them there is low exposure to stocks and bonds. They have a much lower correlation to the rest of the portfolio and will do well in inflationary times. This fund manager allows access to asset classes that the firefighters’ fund would not have access to otherwise. They have a committee-driven process and it would be good to be on alert for organizational changes. They are a \$2 trillion firm, and there was some concern with their fixed income portfolio and the fact that they were the largest fund in the world.
- Ted Dutkiewicz passed out the report on the status of the Fund as of April 30, 2014:
  - The report showed total current market value of the Fund was \$152.5 million, down 0.363% year to date. The equity fund is down 1.176%, and fixed income is up 1.072% at 41.825% of the total Fund.

## **VI. OLD BUSINESS**

- The DOI audit report is in progress.
- Tim Bowen from Mesirow gave his presentation on available fiduciary liability insurance policy choices:
  - The current policy is \$2 million limited liability insurance under Chubb and expires 7-1-14.
  - Page 4 list carriers: those not interested in fiduciary liability insurance in Illinois are ACE, CNA and Excel. Travelers is getting out of the market and has higher or more exclusions intentionally regardless of funding. Hartford and RLI are good carriers for a fund of the firefighters’ size but were not as competitive as the top three: Chubb, Ullico and AIG.
  - Looking at the columns on page 5, Chubb on the far right is the current carrier; next is Ullico and AIG. Bowen indicated it is important to pay attention to the enhancements offered, i.e. – and Ullico is one of the few carriers that offers control of the defense to the trustees – choice of counsel is a very important benefit. However, per Bowen, Chubb has a good counsel list.
  - HIPAA fines and penalties are supplements built into every carrier’s form and every carrier but Ullico offers \$25,000. Ullico offers \$1.5 million for fines against HIPAA violations and Bowen commented that he’s never seen it that high. Attorney Clifford said you have to be extremely careful with medical records but it is good insurance to have. Bowen added that he thinks \$25,000 is more than enough for a single fine for a single record.
  - Page 6 shows the exclusions and Chubb and Ullico have no differences. When it comes to allegations of illegal acts, either one will defend against.

- In terms of benefits due, this is governed by Illinois administrative review law. If there is a denial of disability that is challenged, this will be paid by the plan; the defense costs for the individual trustee are covered.
- There is usually a \$15,000 deductible for indemnifiable acts, but Chubb has dropped this deductible from \$15,000 to \$10,000. If there is a non-indemnifiable act (gross negligence or willful misconduct), there is a zero dollar deductible.
- The plan limits available are: for Chubb: \$2 million (current); \$3 million and \$5 million; for Ullico the limits are the same with the same deductible and limits; and AIG has a higher deductible and higher premiums.
- Funds of this size commonly have a \$3 million limit.
- The only difference between Chubb and Ullico is the "duty to defend." Chubb shows a willingness to pay and is the only firm with an A++ rating. Ullico's rating is not quite as good but still good and pro insured.
- Bowen's recommendation would be for maintaining continuity so he would lean toward Chubb.
- PD is leaning toward Chubb with a \$5 million limit but they didn't vote at their meeting as one trustee was absent.
- After discussion, Michael White made a motion, seconded by Chris Black, to renew the fiduciary liability policy with Chubb for option number 2: \$3 million limit, \$10,000 deductible and an \$18,100 annual premium. The fund just needs to confirm that they are not aware of any pending litigation if you raise the insurance amount per Bowen. It should be kept in mind that the insurance is being purchased for the individual defense costs of the trustees and not the value of the fund. A roll call vote was taken:

<b>Ayes:</b>	Alan Granite	Michael White
	Chris Black	
<b>Absent:</b>	Tracy Renfro	Jim Strey
<b>Nays:</b>	None	

- Attorney Clifford brought up several matters for information/discussion:
  - She distributed information at the last meeting regarding GASB changes and funding policies. She commented that the funding policy and GASB changes are more a City issue than a Board issue. However, the Board should continue to encourage the City to seek to have an appropriate policy on funding. Chris Black indicated that the City wants to use entry age normal which is normal according to GASB and does not plan to use projected unit credit (PUC) as it has in past years.
  - Informed Board that there is currently an injunction on pension reform law that was supposed to become effective on June 1, 2014.

## **VII. CLOSED MEETING – None required.**

## **VIII. NEW BUSINESS**

- Ted Dutkiewicz advised Board that Tim Sharpe should be done with the Actuarial Report by June.
- As Montag & Caldwell was scheduled to present at the June meeting but is no longer a fund manager, it was decided that Hillswick, who had to cancel a previous presentation, would be asked to appear.

**IX. TRAINING**

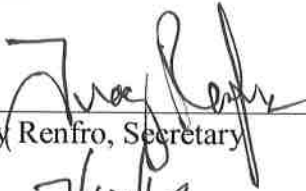
- Training was discussed.

**X. ADJOURNMENT**

A motion was made to adjourn the meeting. Motion carried and meeting was adjourned at 4:45 p.m.

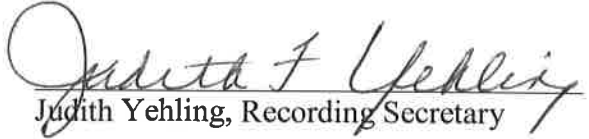
Next regular meeting is June 19, 2014, at 3:00 p.m.

Signed:

  
\_\_\_\_\_  
Tracy Renfro, Secretary

  
\_\_\_\_\_  
Date

Prepared by:

  
\_\_\_\_\_  
Judith Yehling, Recording Secretary

  
\_\_\_\_\_  
Date

*Approved by the Board of Trustees at its June 19, 2014, meeting.*